DURABLE MEDICAL EQUIPMENT PAYMENT SYSTEM

*payment***basics**

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Medical equipment needed at home to treat a beneficiary's illness or injury is covered under the durable medical equipment (DME) benefit. Medicare spent about $6.3 billion on DME in calendar year 2014, a significant decrease from over $7.4 billion in 2013.[1]

DME is defined as equipment that:

- can withstand repeated use,
- primarily and customarily serves a medical purpose,
- generally is not useful to a person without an illness or injury, and
- is appropriate for use in the home.

Medicare Part B covers medically necessary DME prescribed by physician. Some examples of DME covered by Medicare include walkers, wheelchairs, and home oxygen equipment and related supplies. Medicare also covers certain prescription medications and supplies used with DME, even if they are disposable or used only once. For example, Medicare covers medications used with nebulizers.

Medicare does not cover equipment that is not suitable for use in the home (such as equipment used in hospitals or skilled nursing facilities) or that is intended to help outside the home (such as a motorized scooter for getting around outside the home). In addition, most items that are generally for convenience or comfort (such as grab bars) or disposable supplies not used with DME (such as incontinence pads) are not covered.

DME fee schedule

Medicare pays for DME using a fee schedule, which specifies a payment amount for each item or product code. Medicare payment is equal to 80 percent of the lower of either the actual charge for the item or the fee schedule amount for the item. The beneficiary is responsible for 20 percent coinsurance.

CMS calculates the DME fee schedule amounts for the following DME payment categories.

- *Inexpensive and other routinely purchased items:* These items have a purchase price of $150 or less; are generally purchased 75 percent of the time or more; or are accessories used in conjunction with certain nebulizers, aspirators, and ventilators. If covered, these items can be purchased new or used. They can also be rented, but total payment amounts cannot exceed the purchase-new amount for the item.
- *Frequently serviced items:* If covered, these items can be rented as long as they are medically necessary.
- *Oxygen and oxygen equipment:* One bundled monthly payment amount is made for all covered equipment, oxygen, and accessories used in conjunction with the oxygen equipment. Medicare payment for oxygen equipment may not continue beyond 36 months of continuous use. After the 36-month rental cap, Medicare will continue to make monthly rental payments for oxygen.
- *Other covered items that are necessary for the effective use of DME:* If covered, Medicare pays for the purchase of these supplies.
- *Capped rental items:* These are generally expensive items that have historically been rented. If covered, Medicare generally pays for the rental of these items for a period of continuous use not exceeding 13 months. The fee schedule amount is based on the base year purchase price and varies by rental months.

The fee schedule amounts for DME are calculated on a statewide basis and are limited by national ceiling and floor amounts. The fee schedule ceiling is equal to the median of the statewide fee schedule amounts, and the floor is equal to

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85 percent of the median of the statewide fee schedule amounts. The fee schedule is updated semiannually or quarterly, as necessary.

The fee schedule amounts are not calculated for certain customized items. If covered, Medicare pays a lump-sum amount for the purchase of the item, as determined by the Medicare Administrative Contractor. In addition, Medicare payments for inhalation drugs used with DME equal average sales price plus 6 percent, and for home infusion drugs equal 95 percent of the average wholesale price on October 1, 2003.

Competitive bidding

Competitive bidding in Medicare for DME items was first tested in a demonstration program in two areas from 1999 to 2002. In that demonstration, competitive bidding lowered Medicare payments for selected items by 19 percent overall. Analyses of the demonstration also found that beneficiary access and quality of service were essentially unchanged.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) mandated that a competitive bidding program for DME, prosthetics, orthotics, and related supplies be phased in nationwide, starting with 10 metropolitan statistical areas (MSAs) in 2008 and expanding to 80 MSAs by 2009. The first round of competition took place, and contracts were awarded in 10 product categories, effective July 1, 2008. However, the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) terminated the contracts awarded in the first round and required CMS to rebid the competition in 2009. To offset the cost of delaying the program, the fee schedule amounts for selected items were reduced by 9.5 percent nationwide in 2009.

Since then, the competitive bidding program has been implemented through several rounds. Table 1 summarizes each round of competition, with respect to competitive bidding areas, selected product categories, and the contract period covered by the competition. In August 2015, CMS announced the bidding timeline for the Round 1 2017 competition for the contract period beginning on January 1, 2017.

Under the competitive bidding program, suppliers operating in a competitive bidding area submit a bid for selected products. Bids are evaluated based on the supplier's eligibility, financial stability, and bid price. Contracts are awarded to the suppliers who offer the best price and meet applicable quality and financial standards. For each item, the payment amount—referred to as the single payment amount (SPA)—is derived from the median of all winning bids for the item. Contract suppliers must agree to accept assignment on all claims for bid items and be paid the SPA.

CMS reported total savings of more than $580 million in the nine markets at the end of the three-year contract period for the Round 1 rebid due to lower payments and decreased utilization. In addition, CMS reported savings of approximately $2 billion in the first year (July 2013 to July 2014) of Round 2 and the national mail-order program. ■

1 These numbers include payments for DME, prosthetics, orthotics and supplies, a category to which DME belongs under Medicare.

Table 1 Summary of the competitive bidding program for durable medical equipment under Medicare

Round	Number of competitive bidding areas	Product categories	Contract period
Round 1 rebid	9	9 product categories: • CPAP/RAD and related supplies and accessories • Enteral nutrients, equipment and supplies • Hospital beds and related accessories • Oxygen supplies and equipment • Standard power wheelchairs, scooters and related accessories • Support surfaces[1] • Walkers and related accessories • Complex rehabilitative power wheelchairs and related accessories[2] • Mail-order diabetic supplies	January 2011 to December 2013
Round 1 recompete	9	6 product categories: • Respiratory equipment and related supplies and accessories[3] • Enteral nutrients, equipment and supplies • General home equipment and related supplies and accessories[4] • Standard mobility equipment and related accessories[5] • Negative pressure wound therapy pumps and related supplies and accessories[6] • External infusion pumps and supplies	January 2014 to December 2016
Round 2	100	8 product categories: • CPAP/RAD and related supplies and accessories • Enteral nutrients, equipment and supplies • Hospital beds and related accessories • Oxygen supplies and equipment • Standard power wheelchairs, scooters and related accessories • Support surfaces[1] • Walkers and related accessories • Negative pressure wound therapy pumps and related supplies and accessories[6]	July 2013 to June 2016
National mail-order program	All parts of the U.S.	Mail-order diabetic testing supplies	July 2013 to June 2016

Note: CPAP (continuous positive airway pressure [device]), RAD (respiratory assist device).
[1]Support surfaces are pressure-reducing support surfaces for persons with or at high risk for pressure sores. The support surfaces product category includes group 2 mattresses and overlays. For the Round 1 rebid, it was included only in the Miami competitive bidding area.
[2]The complex rehabilitative power wheelchairs and related accessories product category was limited to group 2 power wheelchairs with power options.
[3]The respiratory equipment and related supplies and accessories product category includes oxygen and oxygen equipment and supplies; CPAP, RAD, and related supplies and accessories; and standard nebulizers.
[4]The general home equipment and related supplies and accessories product category includes hospital beds and related accessories, group 1 and 2 support surfaces, transcutaneous electrical nerve stimulation devices, commode chairs, patient lifts, and seat lifts.
[5]Standard mobility equipment and related accessories product category includes walkers, standard power and manual wheelchairs, scooters, and related accessories.
[6]Negative pressure wound therapy uses pumps that apply controlled negative or subatmospheric pressure to care for ulcers or wounds that have not responded to traditional wound treatment methods.

Source: Government Accountability Office. 2014. *Bidding results from CMS's durable medical equipment competitive bidding program*. GAO–15–63. Figure 1 and Figure 2. Washington, DC: GAO.